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BEFORE THE ARIZONA CORPORATION COMMISSION

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Arizona Corporation Commission

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NOTICE OF

POST-HEARINGS/ OPENING BRIEFS

IN THE MATTER OF THE APPLICATION  
OF ARIZONA-AMERICAN WATER  
COMPANY, AN ARIZONA  
CORPORATION, FOR A  
DETERMINATION OF THE CURRENT  
FAIR VALUE OF ITS UTILITY PLANT  
AND PROPERTY AND FOR INCREASES  
IN ITS RATES AND CHARGES BASED  
THEREON FOR UTILITY SERVICE BY ITS  
ANTHEM WATER DISTRICT AND ITS  
SUN CITY WATER DISTRICT

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THEREON FOR UTILITY SERVICE BY ITS  
ANTHEM/AGUA FRIA WASTEWATER  
DISTRICT, ITS SUN CITY WASTEWATER  
DISTRICT AND ITS SUN CITY WEST  
WASTEWATER DISTRICT

RESPECTFULLY SUBMITTED

THIS 16TH. DAY OF JULY, 2010

W.R. HANSEN , Individual Intervener

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Sun City West, Az . 85375

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1 This has been a most unusual rate hearing process, overshadowed by  
2 a continual obsession with what might happen to "Rate consolidation."  
3 I felt significant allowable expenditure items were pushed aside in  
4 the rush to get to consolidation, and I will speak to at least two  
5 of those neglected expenditure item discussions. The policy issue  
6 of "so-called consolidation" should never have been overlaid with a  
7 rate hearing.

8 I continue to belabor my concern that the "so-called consolidation"  
9 hearings were mislabeled, a fact I contend that the FTC would bristled  
10 over quickly labeling it inappropriate marketing. Whether done to  
11 give it more consumer appeal or not, I can not say. But it lacks the  
12 two prime ingredients of consolidation as it is known and used in  
13 business world today: centralization of production facilities &  
14 measureable cost reductions. Neither is apparent in this study.  
15 The concepts offered up are, in fact, termed "levelization or equal-  
16 ization" by the utility industry and illustrated in the last rate  
17 study as such, purported to be utilized in New Jersey. Why the  
18 masquerade is highly suspect. Perhaps it is the reluctance to con-  
19 cede that rates are not consolidated but compressed to obscure the  
20 high rates while eliminating the low rates, which are siphoned onto a  
21 higher level to compensate for the lost higher rates. In the process,  
22 no rate payer's charge approximates the billing, reflective of "cost  
23 service provided," as the Arizona Constitution requires in Chapter 15.

24

25 Now having offered my interpretation of the rate study process just  
26 concluded, allow me to state, in bullet-point fashion, six reasons,  
27 why commissioners should reject it.

28

1 #1. This study is not about "consolidation" as the business world  
2 would define it , for centralization of production in a concentrated  
3 plant is not contemplated nor plausible. While in the electric and  
4 gas utility fields, centralization of production is the centerpiece.  
5 #2 Likewise, cost-savings of significant proportion are absent though  
6 they are the other customary component of business-world consolida-  
7 tion.  
8 #3 There is no singular rate but a compression of rates, lopping off  
9 the high rates, pumping up the low rates, to move toward a more cen-  
10 tralized average- resulting in a bonus for Anthem & Tubac at the  
11 expense of Sun City & Mohave in particular. The process causes  
12 the wide span of rates to escalate from a range of \$16.73- 65.81 to  
13 21.11-99.25.  
14 #4 The 8 districts within the study are the least likely candidates  
15 for consolidation for 2 principal reasons;  
16 1) the range of rates (16.73-65.81) is illustrative of the extremes  
17 of costs for delivery of service within the 8 districts, a  
18 multiple swing of almost 4 times  
19 2) the difference in aging of the districts, with the earliest  
20 starting back in 1946. 75% of the districts average 49yrs.  
21 while 25%(including SCW) average 22 yrs. Thus the younger  
22 district go through years of paying while they would be the  
23 last to incur (normally) significant improvements.  
24 # 5 The cost sharing concept, inherent in this approach, has an un-  
25 fortunate advantage to the company whereby it incentivises them  
26 to troll for the sick and lame districts, bring them into the group  
27 and saddle their financial burden on the existing companies.  
28 Statewide, the range of rate is even more radical, thus imposing

1 the potential of a steady rising rate structure.

2 # 6 There are serious legal impediments to this approach since the  
3 state constitution, Article 15, requires the Commission to spread  
4 among the districts a rate reflective of "Cost of service provided."  
5 Both the Legal Counsel for the Staff and R.U.C.O. concur on that  
6 fact.

7 Discussion of two major expenditure items were obscured in this  
8 cluttered process;

- 9 1) Management Fees. More than \$12 million dollars is swept out  
10 of this state annually from the 8 district. In some instances,  
11 it generates over 20% of the cash disbursements and yet it  
12 is approved without challenge, even though it involves over  
13 12 different and complex, but unitemized areas on the expense  
14 sheet the Commissioners view. It bears far greater scrutiny.  
15 2) Incentive Bonuses. Arizona Commission should follow the lead  
16 of the Illinois Commission in disallowing incentive bonuses as  
17 a burden on the back of rate payers. They should also review  
18 their policy on pensions.

19 For all of these reasons, I would urge the Commissioners to resist  
20 this proposal.

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